1999

ANNUAL REPORT

Illinois-American
Water Company

An American Water System Company

ILLINOIS-AMERICAN WATER COMPANY

An American Water System Company
300 North Water Works Drive
Belleville, Illinois 62223

1999 Board of Directors

J. James Barr, President and Chief Executive Officer
American Water Works Company, Inc.

E. C. Wolf, Vice-President & Chief Financial Officer
American Water Works Company, Inc.

D. L. Kelleher, Senior Vice-President
American Water Works Company, Inc.

T. L. Gloriod, President
Illinois-American Water Company

E. H. Gemmill, Director
American Water Works Company, Inc.

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American Water Works Company, Inc.

T. E. Holloway, Director
Bank President & CEO

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S. A. Schultz	Secretary
J. D. Harris	Comptroller

Transfer and Dividend Disbursing Agent for
Cumulative First Preferred Stock, 6% Series:
Union Planters Trust and Investment Company
222 East Main Street
Belleville, Illinois 62222

President's Report

"To provide the highest quality water service at the lowest price possible while enhancing shareholder value and developing associates in a desirable work environment."

During 1999, I'm proud to report we lived up to our mission statement, both financially and in terms of providing quality water service to our customers.

Financials Strong

For Illinois-American, net income was $11,315,000. Overall revenues were $74,363,000.

Successful NIWC Merger

The year included work on three separate merger activities, but most notably was the integration of Northern Illinois Water Corporation, as part of American Water Works Company, Inc. acquisition of National Enterprises, Inc.

NIWC serves approximately 62,000 customers in Champaign, Pontiac, Sterling and Streator areas.

In a matter of months, associates from NIWC and IAWC planned and implemented a conversion and integration plan to centralize the administrative and customer functions. The success of the merger project depended on the ability of our associates to embrace change, work hard, and combine the best of two companies into a single "new company." As always, expectations were exceeded. The benefits of the new organization encompass business practice, cultural diversity and individual growth.

Alton Plant Begins

This project has been in the deliberative stage since the Flood of 1993. The combined efforts of associates in Illinois and New Jersey culminated in the awarding of a construction contract to an Illinois-based firm, River City Construction in summer 1999.

When completed in late 2000, this new facility will replace the 102-year-old plant, which is located across a highway from the new plant.

Ready For Y2K

Work began in the mid-1990s on a readiness plan to ensure that the date rollover was basically a non-event.

The insignificance of this event should underscore the extreme effort by associates in testing, fixing and re-testing all computerized systems.

We are extremely proud that none of our customers' water service was interrupted due to Y2K-related events.

Peoria & Pekin Challenges

Both communities in our Northern Division ended 1999 with certain community leaders expressing a desire for municipal ownership of the water system.

The company's efforts have been designed to keep discussions on the "high road" by continuing to state that we believe the best interests of the communities rest in IAWC ownership and operation of their water system.

In both cities, the debate is not over the level or satisfaction of service. Proponents of municipal ownership in Peoria and Pekin cite financial gains through the retention of taxes and profits as the reason for pursuing ownership.

It is our continued goal to emphasize what is best for the citizens (private ownership), and encourage their support. Our goal is to reach an amicable end to the controversy.

The year 1999 was like no other in the history of the company. The pace and impact of events have changed us permanently. Hard work and challenges have caused us to grow as individuals and as a company.

We look forward to continuing to grow and improve as we strive to fulfill our mission in the new millennium.

Terry Gloriod

Terry Gloriod, President
March 2000

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Thirty South Seventeenth Street
Philadelphia PA 19103-4094
Telephone (215) 575 5000

Report of Independent Accountants

To the Board of Directors and Stockholder of
Illinois-American Water Company

In our opinion, the accompanying balance sheets and the related statements of income, of retained earnings, of cash flows, of capitalization and of common stockholder's equity present fairly, in all material respects, the financial position of Illinois-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

January 28, 2000

ILLINOIS-AMERICAN WATER COMPANY
Balance Sheet
(Dollars in thousands)

	December 31, 1999	December 31, 1998
Assets		
Utility plant - at original cost	$ 326,431	$ 312,036
Construction work in progress	20,793	7,565
Accumulated depreciation	(93,942)	(86,026)
	253,282	233,575
Non utility property	563	563
	253,845	234,138
Current assets		
Cash	1,820	44
Investments-restricted	14,587	-
Customer accounts receivable	4,436	5,032
Allowance for uncollectible accounts	(158)	(156)
Unbilled revenues	3,524	3,331
Federal income tax refund due from associated company	637	161
Materials and supplies	1,474	1,128
Deferred vacation pay	1,133	1,041
Other	460	368
	27,913	10,949
Regulatory and other long-term assets		
Debt and preferred stock expense	3,795	2,198
Expense of rate proceedings	42	225
Deferred programmed maintenance	723	979
Net regulatory asset - income taxes recoverable through rates	5,036	4,725
Other	16	175
	9,612	8,302
	$ 291,370	$ 253,389
Capital and Liabilities		
Common stock	$ 56,828	$ 56,828
Paid-in capital	1,896	1,896
Retained earnings	42,039	38,673
Total common stockholder's equity	100,763	97,397
Preferred stock	762	848
Long-term debt	115,520	89,975
Total capitalization	217,045	188,220
Current liabilities		
Bank debt	2,550	1,072
Current portion of long-term debt	5,591	685
Accounts payable	5,310	3,022
Accrued taxes	1,262	1,329
Accrued interest	1,621	1,490
Accrued vacation pay	1,133	1,041
Accrued wages	182	140
Other	1,255	3,288
	18,904	12,067
Regulatory and other long-term liabilities		
Customer advances for construction	5,437	3,742
Deferred income taxes	21,562	21,457
Deferred investment tax credits	2,803	2,993
Accrued other postretirement benefits	842	842
Accrued pension cost	3,832	3,266
Other	373	442
	34,849	32,742
Contributions in aid of construction	20,572	20,360
Commitments and contingencies (Note 16)	-	-
	$ 291,370	$ 253,389

ILLINOIS-AMERICAN WATER COMPANY
Statement of Income
(Dollars in thousands)

	Year ended December 31, 1999	1998
Operating revenues	$ 74,363	$ 72,900
Opertating expenses		
Operation and maintenance	34,903	33,822
Merger expenses	1,395	-
Depreciation and amortization	10,907	10,127
General taxes	3,960	3,343
State income taxes	819	615
Federal income taxes	5,457	6,464
	57,441	54,371
Utility operating income	16,922	18,529
Other income		
Allowance for other funds used during construction	1,011	157
Miscellaneous other income	748	281
	18,681	18,967
Other deductions		
Amortization of preferred stock expense	1	1
Miscellaneous other deductions	345	22
Taxes on other income and deductions		
General	7	8
State income	13	8
Federal income	132	83
	498	122
Income before interest charges	18,183	18,845
Interest charges		
Interest on long-term debt	6,998	6,108
Amortization of debt expense	177	140
Interest on bank debt	77	208
Other interest	38	28
Allowance for borrowed funds used during construction	(422)	(94)
	6,868	6,390
Net income	$ 11,315	$ 12,455

ILLINOIS-AMERICAN WATER COMPANY
Statement of Retained Earnings
(Dollars in thousands)

	Year ended December 31, 1999	1998
Retained earnings at beginning of year	$ 38,673	$ 35,347
Net income	11,315	12,455
	49,988	47,802
Dividends		
Preferred stock	48	54
Common stock	7,901	9,075
	7,949	9,129
Retained earnings at end of year	$ 42,039	$ 38,673

ILLINOIS-AMERICAN WATER COMPANY
Statement of Cash Flows
(Dollars in thousands)

	Year ended December 31, 1999	1998
Cash flows from operating activities		
Net income	$ 11,315	$ 12,455
Adjustments		
Depreciation and amortization	10,907	10,127
Amortization, other	816	780
Allowance for other funds used during construction	(1,011)	(157)
Provision for deferred income taxes	105	(56)
Amortization of deferred investment tax credits	(259)	(253)
Provision for losses on accounts receivable	497	425
Expense of rate proceedings	(42)	(8)
Other, net	(428)	(448)
Changes in assets and liabilities		
Accounts receivable	101	(660)
Unbilled revenue	(193)	(399)
Materials and supplies	(346)	(73)
Other current assets	(184)	34
Accounts payable	2,288	833
Federal income tax refund due from associated company	(476)	199
Accrued taxes	(67)	373
Accrued interest	131	18
Accrued pension costs	566	565
Other current liabilities	(1,899)	(1,094)
Net cash provided by operating activities	21,821	22,661
Cash flows from investing activities		
Construction expenditures	(30,305)	(25,416)
Restricted funds in investments	(14,587)	-
Acquisitions	-	(1,650)
Allowance for other funds used during construction	1,011	157
Cost of removal, net of salvage	(762)	(797)
Net cash used in investing activities	(44,643)	(27,706)
Cash flows from financing activities		
Proceeds from long-term debt	30,645	12,000
Proceeds from common stock	-	20,000
Net borrowings under line-of-credit agreement	1,478	(19,906)
Repayment of long-term debt	(194)	(88)
Customer advances and contributions	2,454	3,062
Redemption of preferred stocks	(86)	(96)
Dividends paid	(7,950)	(9,131)
Debt issuance costs	(1,749)	(786)
Net cash provided by financing activities	24,598	5,055
Net change in cash	1,776	10
Cash at beginning of year	44	34
Cash at end of year	$ 1,820	$ 44
Cash paid during the year for:		
Interest, net of capitalized amount	$ 6,558	$ 6,232
Income taxes	$ 7,235	$ 6,963

The accompanying notes are an integral part of these financial statements

Illinois-American Water Company
Statement of Capitalization
(Dollars in thousands, except per share amounts)

	Call Price Per Share	December 31, 1999	December 31, 1998
Common Stockholder's Equity			
Common stock - no par value, authorized 7,500,000 shares 5,338,266 shares issued and outstanding in 1999 and 1998		$ 56,828	$ 56,828
Paid- in capital		1,896	1,896
Retained earnings		42,039	38,673
		100,763	97,397
Preferred Stock - $100 par value			
Without mandatory redemption requirements:			
Cumulative first preferred stocks - authorized 15,503 shares			
6.00% series, 5,500 shares issued and outstanding	$105.00	550	550
		550	550
With mandatory redemption requirements:			
Cumulative preferred stocks - authorized 60,000 shares			
4-7/8% series, 320 shares issued and outstanding in 1999, 480 in 1998	$100.00	32	48
5-1/4% series, 0 shares issued and outstanding in 1999, 100 in 1998	$100.00	-	10
6-3/4% series, 360 shares issued and outstanding in 1999, 480 in 1998	$100.00	36	48
6-7/8% series, 1,440 shares issued and outstanding in 1999, 1920 in 1998	$100.00	144	192
		212	298
Long-Term Debt			
General mortgage bonds			
9.71% series due 2000		5,100	5,100
8.54% series due 2001		5,100	5,100
7.19% series due 2002		21,000	21,000
6.57% series due 2004		16,800	16,800
6.76% series due 2005		7,000	7,000
9-5/8% series due 2019		6,000	6,000
6.10% series due 2022		11,000	11,000
5.15% series due 2023		5,975	5,975
5.00% series due 2028		12,000	12,000
5.10% series due 2029		30,645	-
Notes payable		491	596
Capital lease		-	89
		121,111	90,660
Less: Current portion of capital lease, notes payable and bond issue		(5,591)	(685)
		115,520	89,975
		$ 217,045	$ 188,220

The accompanying notes are an integral part of these financial statements

Illinois-American Water Company
Statement of Common Stockholder's Equity
(Dollars in thousands, except per share amounts)

	Common Stock		Paid-in	Retained	Common Stockholder's
	Shares	Par Value	Capital	Earnings	Equity
BALANCE AT DECEMBER 31, 1997	4,203	$ 36,828	$ 1,896	$ 35,347	$ 74,071
Net income	---	---	---	12,455	12,455
Issuance of common stock	1,135	20,000	---	---	20,000
Dividends					
Preferred stocks	---	---	---	(54)	(54)
Common stock, $1.69 per share	---	---	---	(9,075)	(9,075)
BALANCE AT DECEMBER 31, 1998	5,338	$ 56,828	$ 1,896	$ 38,673	$ 97,397
Net income	---	---	---	11,315	11,315
Dividends					
Preferred stocks	---	---	---	(48)	(48)
Common stock, $1.70 per share	---	---	---	(7,901)	(7,901)
BALANCE AT DECEMBER 31, 1999	5,338	$ 56,828	$ 1,896	$ 42,039	$ 100,763

The accompanying notes are an integral part of these financial statements

Note 1: Organization and Operation

Illinois-American Water Company, Inc. (the Company) provides water service to approximately 148,000 customers. This service is provided in 65 communities located in 7 counties in the state of Illinois. As a public utility operating in Illinois, the Company functions under rules and regulations prescribed by the Illinois Commerce Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American).

Note 2: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." (SFAS No. 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (net of salvage) is charged to accumulated depreciation. The cost of property, plant and equipment is depreciated using the straight-line method. The depreciation rates, based on the average balance of depreciable property, were 3.5% in 1999 and 1998.

In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction. Such depreciation amounted to $547 in 1999 and $512 in 1998.

Utility plant acquisition adjustments include the difference between the purchase price of utility plant and its original cost (less accumulated depreciation) when first devoted to public service and are being amortized to income over periods of five to twenty-eight years.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 1999 or 1998.

Investments - Restricted

Bond proceeds from the 5.10% series bond offering can only be used to construct utility plant. At December 31, 1999, unexpended proceeds were held in escrow by the bond trustee and were invested by the trustee in various securities, all of which had maturities of less than one year. These investments are classified as held to maturity in accordance with Statement of Financial Accounting Standards 115 "Accounting for Certain Invsestments in Debt and Equity Securities." These securities are carried at amortized cost.

Materials and Supplies

Materials and supplies are stated at average cost.

Regulatory and Long-Term Assets

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate making purposes.

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over thirty years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Expense of rate proceedings is deferred and amortized on a straight-line basis over a two-to-five year period, as authorized by the Commission in their determination of rates charged for service.

Preliminary survey and investigation charges generally relate to future construction projects. Management believes these costs will ultimately be recovered through rates.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period of seven to ten years, as authorized by the Commission in their determination of rates charged for service.

Other Current Liabilities

Other current liabilities at December 31, 1998 include payables to banks of $2,764 which represent checks issued but not presented to the banks for payment, net of the related bank balance. There were no payables to banks at December 31, 1999.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base and is not depreciated for rate making purposes. Generally, advances and contributions received during the period of January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

Recognition of Revenues

Water service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Effective December 1, 1990, the Company was directed to prospectively defer state investment tax credits and amortize the tax credits over the average life of the related property. State investment tax credits generated prior to that date were recorded as a reduction to the state tax liability on a flow-through basis.

(Dollars in thousands)

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 1999 and 1998.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3 - Utility Plant

The components of utility plant by category at December 31 are as follows:

Water plant	1999	1998
Sources of supply	$ 8,416	$ 8,303
Treatment and pumping	88,006	87,110
Transmission and distribution	128,986	120,533
Services, meters, and fire hydrants	70,413	66,800
General structures and equipment	30,610	29,290
	326,431	312,036
Construction work in progress	20,793	7,565
Less - accumulated depreciation	93,942	86,026
	$ 253,282	$ 233,575

Note 4: Preferred Stocks

Certain preferred stock agreements, with mandatory redemption requirements, require annual sinking fund payments of $76 in 2000, $76 in 2001, and ending with $60 in 2002.

Preferred stock agreements, with mandatory redemption requirements, contain provisions for redemption at various prices on thirty days' notice, at the Company's discretion. In the event of liquidation, whether voluntary or involuntary, the shares of each series are redeemable at $100 per share. All call prices are on thirty days' notice plus accrued dividends.

(Dollars in thousands)

Note 5: Long-Term Debt

Maturities of long-term debt will amount to $5,100 in 2000 and 2001, $21,000 in 2002, $0 in 2003 and $16,800 in 2004.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholders' equity falls below a specified amount. There were no restrictions at December 31, 1999.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. Long-term mortgage debt is secured by utility plant.

The Company has an outstanding note payable to a municipality. The note accrues interest at 6.50% compounded annually. The note is payable in annual installments of $140, which include principal and interest. The first principal and interest payment was made in August 1999 and subsequent payments are due each August thereafter until August 2003. Principal and accrued interest on the note are callable at any time. The outstanding balance was $491 and $596 at December 31, 1999 and 1998, respectively.

The Company's capital lease, the Peoria office building, expired on September 30, 1999. Leased property totaled $615 at December 31, 1998. Associated accumulated amortization was $587 at December 31, 1998. Amortization of the capital lease asset was $28 in 1999 and $31 in 1998. The Company made lease payments of $97 and $106 in 1999 and 1998, of which $8 and $23 represented interest, respectively.

Note 6: Compensating Balances and Bank Debt

During 1999, the Company maintained a bank line of credit the terms of which included different commitment amounts in each calendar quarter of the year. The maximum commitment available during the year was $6,750, and the amount available at December 31, 1999 was $5,500. The total of the unused line of credit at December 31, 1999 was $2,950. The Company historically finances short-term cash requirements with borrowings from banks which are repaid with the proceeds of a long-term financing. Borrowings under this line of credit are payable on demand and bear interest at variable rates. The agreement with the bank has no compensating balance requirement.

The maximum amount of short-term bank borrowings outstanding during 1999 was $6,000, and the average amount outstanding during the year was $1,442. The weighted average annual interest rate on these borrowings during 1999 was 5.49%, and the interest rate at December 31, 1999 was 6.00%.

Note 7: Financings

During 1999 and 1998, the Company completed the following financings:

Date	Proceeds	Issue
06/23/99	$30,645	General mortgage tax exempt bonds, 5.1% series, due June 1, 2029
02/24/98	$12,000	General mortgage tax except bonds, 5.0% series, due February 1, 2028
02/24/98	$20,000	Common stock, 1,135,074 shares, no par value

Proceeds of these financings were used to repay bank debt, provide working capital, and finance construction.

(Dollars in thousands)

The 5.1% and 5.0% general mortgage bonds were sold to an underwriter at a price equal to the principal amounts. The underwriter resold the bonds to the general public. The common stock was issued to the Company's parent, American Water Works Company, Inc.

Note 8: General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	1999	1998
Franchise	$ 80	$ 57
Property and capital stock	2,774	2,215
Payroll	1,113	1,079
	$ 3,967	$ 3,351

Note 9: Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	1999	1998
State income taxes:		
Current	$ 677	$ 492
Deferred		
Current	1	--
Non-current	109	42
Investment tax credits deferred, net of amortization	45	89
	$ 832	$ 623
Federal income taxes:		
Current	$ 5,760	$ 6,838
Deferred		
Current	6	2
Non-current	58	(58)
Amortization of deferred investment tax credits	(235)	(235)
	$ 5,589	$ 6,547

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	1999	1998
Income tax at statutory rate of 35%	$ 6,208	$ 6,869
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	541	405
Flow through differences	152	152
Amortization of investment tax credits	(235)	(235)
Other, net	(245)	(21)
Actual income tax expense	$ 6,421	$ 7,170

(Dollars in thousands)

The following table provides the components of the net deferred tax liability at December 31:

	1999	1998
Deferred tax assets:		
Advances and contributions	$ 10,304	$ 9,548
Deferred investment credits	834	925
Other	2,059	1,889
	$ 13,197	$ 12,362
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 32,373	$ 31,379
Income taxes recoverable through rates	1,358	1,355
Other	1,028	1,085
	$ 34,759	$ 33,819
Net deferred tax liabilities	$ 21,562	$ 21,457

No valuation allowances were required on deferred tax assets at December 31, 1999 and 1998.

Note 10: Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on projected sales during the future test year selected by the Company as the base period. During 1999, the Company did not submit any new rate filings.

Note 11: Employee Benefit Plans

Employees' Stock Ownership Plan

The Company participates in an Employees' Stock Ownership Plan sponsored by American which provides for beneficial ownership of American common stock by all associates who are not included in a bargaining unit. Each participating associate can elect to contribute an amount that does not exceed 2% of their wages. In addition to the associate's participation, the Company makes a contribution equivalent to ½% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of $119 for 1999 and $116 for 1998 that it made to the plan. The trustee of the plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction.

Savings Plan for Employees

The Company participates in a 401(k) Savings Plan for Employees sponsored by American. All Associates can make contributions that are invested at their direction in one or more funds including a fund consisting entirely of American common stock. The Company matches 50% of the first 4% of each associate's wages contributed to the plan. The Company expensed matching contributions to the plan totaling $205 for 1999 and $206 for 1998. All of the Company's matching contributions are invested in the fund of American common stock. The trustee of the plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction.

(Dollars in thousands)

Note 12: Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering substantially all associates. Benefits under the plan are based on the associate's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made no contributions to the plan in 1999 or 1998.

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired associates and certain health care benefits for retired associates and their dependents. Substantially all associates may become eligible for those benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 can elect either a comprehensive medical plan under which covered expenses are paid at 80% after an annual deductible has been satisfied or a managed care plan that requires copayments. Associates who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of $1,697 in 1999 and $1,545 in 1998. The Company's policy is to fund postretirement benefits costs accrued.

Note 13: Related Party Transactions

American Water Works Service Company, Inc. (Service Company), an affiliate, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American Water Works System on an at-cost, not-for-profit basis in accordance with a management and service agreement. Purchases of such services by the Company were accounted for as follows:

	1999	1998
Included in operation and maintenance expense as a charge against income	$ 1,880	$ 1,432
Capitalized in various balance sheet accounts	352	294
	$ 2,232	$ 1,726

The Company has operating (and/or purchase) agreements with AmericanAnglian Environmental Technologies, Inc. (AAET), an affiliate, for the lease (and/or purchase) of granular activated carbon at three of the Company's water treatment plants. The agreements provide for AAET to regenerate the spent carbon and return it to the water treatment plant where it originated. Under the terms of the agreements, AAET will provide carbon for a period of 36 months. The carbon is scheduled for replacement at 12 or 36 month intervals and is warranted to perform to specific standards during the period. The Company paid $231 in 1999 and $273 in 1998 to AAET under these agreements.

(Dollars in thousands)

Note 14: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair values.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements	$ 212	$ 209	$ 298	$ 301
Long-term debt, including current maturities other than obligations under capital leases	$121,111	$114,779	$ 90,571	$ 98,144

Note 15: Operating Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $530 for 1999 and $362 for 1998. The operating leases for the facilities expire in three years and the operating leases for the equipment expire over the next five years. Certain leases have renewal options ranging from one to five years.

At December 31, 1999, the minimum annual future rental commitments under operating leases that have initial or remaining noncancellable lease terms in excess of one year are $284 in 2000, $284 in 2001, $276 in 2002, $262 in 2003, and $261 in 2004.

Note 16: Commitments and Contingencies

The Company's construction program for 2000 is estimated to cost approximately $58,000. Commitments have been made in connection with certain projects included in this program.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position or results of operations of the Company.

Note 17: Acquisitions and Pending Mergers

On June 25, 1999, American merged with National Enterprises Inc. (NEI) in a business combination that was accounted for as a pooling of interests. Northern Illinois Water Corporation ("Northern") is an indirect wholly owned subsidiary of NEI. The operations of Northern provide water service to approximately 62,000 customers. This service is provided in sixteen communities located in four counties in the State of Illinois. On August 13, 1999, the Company and Northern filed an application with the Commission for approval of the merger and proposed re-organization of the Company and Northern. This application is subject to approval by the Commission.

During 1999, the Company entered into an agreement with United Water Works, Inc. whereby it will purchase all of the stock of United Water Illinois, Inc. ("United"). The Company will account for the acquisition as a purchase of the stock of United. The estimated purchase price is $10.3 million. The operations being acquired provide water service to approximately 5,900 customers. This service is provided in one community located in one county in the State of Illinois. This agreement is subject to approval by the Commission.

During 1999, American and the Company entered into an Asset Purchase Agreement with Citizens Utility Company ("Citizens") whereby the Company will purchase the water and wastewater assets of Citizens in Illinois for approximately $219.9 million. The operations being acquired provide service to approximately 38,400 water customers and 34,200 wastewater customers throughout the State of Illinois. This agreement is subject to approval by the Commission.

During 1999, the Company recorded pretax expenses of $1.4 million, reflecting the one-time costs incurred in connection with the anticipated mergers between the Company and Northern, United, and Citizens. The merger related costs consist primarily of severence costs as well as vesting of certain benefits, professional fees and other costs. The merger related costs have been reported on a separate line item in the statement of income for the year ended December 31, 1999.

Additional Information
(UNAUDITED)

ILLINOIS-AMERICAN WATER COMPANY
Historical Review (Unaudited)

For the years ended December 31,	1999	1998	1997	1996	1995	1994	1989
Utility plant - at original cost	$326,430,578	$312,036,241	$289,068,293	$259,668,707	$240,855,339	$229,699,102	$176,557,964
Accumulated depreciation	(93,941,534)	(86,026,259)	(79,154,010)	(72,003,312)	(66,068,662)	(60,306,805)	(40,176,146)
Net utility plant	$232,489,044	$226,009,982	$209,914,283	$187,665,395	$174,786,677	$169,392,297	$136,381,818
Net plant per customer	$1,566	$1,531	$1,440	$1,292	$1,210	$1,176	$958
Construction expenditures	$30,304,966	$25,416,070	$32,446,479	$22,844,914	$13,423,294	$15,268,415	$10,467,362
Total assets	$291,370,309	$253,388,784	$234,534,958	$210,818,120	$201,888,981	$194,775,846	$153,318,764
Capitalization at year end							
Common equity	*$100,763,162*	*$97,395,960*	*$74,070,963*	*$71,531,429*	*$69,176,862*	*$60,963,785*	*$43,345,858*
Preferred stock	762,000	848,000	944,000	1,040,000	1,210,000	1,494,000	2,942,000
Long-term debt - includes current portion	121,111,301	90,659,901	78,151,858	78,242,054	78,301,468	79,351,758	61,903,512
	$222,636,463	$188,903,861	$153,166,821	$150,813,483	$148,688,330	$141,809,543	$108,191,370
Customers served							
Residential	131,633	130,876	129,632	129,450	128,766	128,394	126,579
Commercial	14,110	14,100	13,555	13,409	13,489	13,527	13,702
Industrial	332	324	331	335	329	327	326
Fire service	1,300	1,203	1,227	1,166	1,151	1,107	907
Public and other	1,111	1,165	995	931	705	701	791
	148,486	147,668	145,740	145,291	144,440	144,056	142,305
Water sales (thousand gallons)							
Residential	8,533,961	8,271,130	8,450,440	8,987,895	8,623,995	8,485,856	8,479,923
Commercial	4,785,112	4,726,797	4,639,637	4,787,621	4,812,870	4,713,038	4,399,298
Industrial	*6,942,401*	*6,609,209*	*6,401,324*	*6,222,472*	*5,986,782*	*6,066,361*	*6,466,669*
Public and other	6,309,502	5,923,859	5,901,133	5,786,972	5,629,413	5,415,826	5,132,965
	26,570,976	25,530,995	25,392,534	25,784,960	25,053,060	24,681,081	24,478,855
Annual sales per customer (thousand gallons)	179	173	174	177	173	171	172
Operating revenues							
Water service							
Residential	$38,441,291	$37,617,442	$34,694,061	$34,768,977	$32,198,985	$31,994,276	$23,285,342
Commercial	12,588,426	12,322,987	10,719,463	10,791,273	9,906,892	9,816,062	7,287,027
Industrial	8,627,030	8,624,434	7,733,369	7,698,801	6,862,394	6,964,120	5,599,645
Fire service	4,572,232	4,531,024	3,337,298	3,345,358	3,444,393	3,398,672	3,746,073
Public and other	9,559,167	9,289,561	8,123,268	7,846,667	7,009,323	6,749,840	5,333,743
Other water revenues	574,409	514,664	543,754	311,102	58,206	55,569	63,113
	$74,362,555	$72,900,112	$65,151,213	$64,762,178	$59,480,193	$58,978,539	$45,314,943
Annual revenue per customer	$501	$494	$447	$446	$412	$409	$318
Net income	$11,316,141	$12,455,161	$9,701,981	$9,482,685	$7,586,327	$7,350,433	$4,602,892
Coverage ratios							
On long-term debt interest before income taxes	3.4	4.2	3.6	3.6	3.0	3.0	2.1
On total interest before income taxes	3.2	*4.0*	3.3	*3.6*	*2.9*	*2.9*	*2.0*
On total fixed charges including preferred dividends:							
Before income taxes	3.2	4.0	3.2	3.5	2.9	2.8	1.9
After income taxes	2.3	2.9	2.4	2.6	2.2	2.1	1.6